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FM SECSTATE WASHDC

TO AMEMBASSY JIDDA

C O N F I D E N T I A L STATE 193331

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E.O. 11652: GDS

TAGS: ENRG

SUBJECT: ARAMCO-SAG TALKS

1. ARAMCO NEGOTIATORS TAVOULAREAS AND GARVIN MET AUGUST 29 WITH THE DEPUTY SECRETARY AND UNDER SECRETARY OF THE TREASURY BENNETT TO DISCUSS RESULTS OF THEIR LATEST TALKS WITH YAMANI ON NATIONALIZATION AND ARAMCO'S FUTURE ROLE IN SAUDI ARABIA.

2. COMPANY REPRESENTATIVES FOUND YAMANI STILL ADAMANT THAT ARAMCO SHOULD IMMEDIATELY RELINQUISH REMAINING EQUITY, WITH DETAILS TO BE NEGOTIATED ONLY LATER. ARAMCO AGAIN REJECTED THIS APPROACH AND STRESSED THEIR NEED FOR RECEIVING EQUIVALENT OF EXISTING 40 PERCENT EQUITY,POSSIBLY THROUGH PRICE DIFFERENTIAL. ALTHOUGH YAMANI EXPRESSED DESIRE TO KEEP NEGOTIATIONS ALIVE, HE STATED THAT 100 PERCENT NATIONALIZATION BY KUWAIT WOULD FORCE HIS HAND AND PRECLUDE FURTHER TALKS WITH ARAMCO ON TAKEOVER TERMS.

3. BOTH GARVIN AND TAVOULAREAS STRESSED THAT THEY HAD SET
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OUT NUMEROUS SUGGESTIONS AND OPTIONS ABOUT NATIONALIZA-

TION AND THE NEW ARAMCO-SAUDI RELATIONSHIP. THEY REPORTED HOWEVER THAT YAMANI MADE NO RESPONSE TO ANY OF THESE SUGGESTIONS, AND HAVE CONCLUDED THAT HE UNWILLING TO DEFINE TAKEOVER CONDITIONS AT THIS TIME POSSIBLY BECAUSE OF DOMESTIC AND INTER-OPEC POLITICAL CONSIDERATIONS.

4. YAMANI HAS GIVEN ARAMCO LETTER INSISTING THAT SETTLEMENT ON BUYBACK PRICES, WHICH HAVE BEEN HANGING OVER COMPANIES SINCE SEPTEMBER 1973, SHOULD NOW BE ON BASIS OF EITHER (A) PRICE AT WHICH PETROMIN SELLS PARTICIPATION CRUDE TO THIRD PARTIES OR (B) PRICE REALIZED BY OTHER PG STATES FOR THEIR PARTICIPATION OIL, WHICHEVER IS HIGHER. ACCORDING TO ARAMCO FINAL PHRASE MEANS THAT BUYBACK PRICE IN SAUDI ARABIA COULD BE SET BY SPOT CARGO SALES ELSEWHERE IN GULF AND NOT JUST THE 95 PERCENT FORMULA RECENTLY REACHED IN KUWAIT. THEY SAY YAMANI LETTER GOES BACK ON EARLIER ASSURANCES THAT BASE PRICE FOR BUYBACK CRUDE WOULD BE PETROMIN SALES OF QUANTITIES EXCEEDING 200 MBD. COMPANIES NOW CLAIM THAT SUMS NOW SET ASIDE FOR RETROACTIVE BUYBACK PAYMENTS WOULD BE INADEQUATE TO MEET THESE NEW CONDITIONS.

5. ARAMCO PARENT FIRMS MEETING SEPTEMBER 3 TO REVIEW DEVELOPMENTS AND DECIDE WHETHER TO SEND LETTER TO YAMANI FORMALLY STATING THAT THEY ARE WILLING TO MEET SAG REQUEST FOR 100 PERCENT NATIONALIZATION AND SETTING FORTH THEIR CONDITIONS FOR NATIONALIZATION. THEY ARE CLEARLY WARY OF DEALING WITH YAMANI ON VERBAL BASIS AND BELIEVE THAT FORMAL WRITTEN COMMUNICATION WILL (A) PUT THEM ON RECORD BRINGING A DESCRIPTION OF THE NEGOTIATIONS (AND THEIR PROPOSALS) TO THE ATTENTION OF THOSE ON THE PETROLEUM COUNCIL AND ELSEWHERE IN THE SAG WHOM YAMANI HAS KEPT IN THE DARK ABOUT HIS TALKS. LETTER WOULD ALSO REFUTE YAMANI'S CLAIM TO GARVIN AND TAVOULAREAS THAT COMPANIES, AT DEPARTMENT'S REQUEST, ARE THINKING ABOUT RENEGING ON THEIR EARLIER AGREEMENT TO TOTAL NATIONALIZATION.

6. FULL MEMCON BEING POUCHED TO YOU WEEK OF SEPTEMBER 2. INGERSOLL

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